

## **EXHIBIT D-49**



## ***NAVI: Audit Alleges Deceptive Practices Against Student Loan Borrowers***

### **Summary**

Today the Associated Press (AP) reported that a 2017 audit conducted by the Department of Education (ED) showed that Navient may have engaged in deceptive practices against student loan borrowers ([link](#)). The AP received a copy of the audit and other documents from the office of Senator Elizabeth Warren.

The ED's audit includes 2,400 randomly selected calls to borrowers from 2014-2017 out of a batch of 219,000. On nearly one out of the 10 calls, the NAVI representative did not mention other options (or, in 90% of the calls, the NAVI representative *did* mention other options). The Auditors wrote that the customer service representatives didn't ask questions to determine if an income-driven repayment plan would be more beneficial to the borrower, as opposed to a forbearance option.

**ED's View:** The Department of Education is actually supporting Navient after the results of the audit were released. The ED was intentionally withholding the report as it was done as part of its own contract oversight with NAVI and not for the benefit of other agencies. Included within the audit are recommendations for how NAVI can fix its practices but makes no mention of firm requirements. The ED mentioned that there is nothing in the report which indicates that NAVI was improperly steering borrowers or that forbearances were used improperly; rather, the ED's recommendations are on how to best counsel a small minority of borrowers.

**NAVI's View:** NAVI stresses the fact that 90% of all borrowers on the calls were offered other options (which is a solid success rate) and this audit is just one piece of the broader story. NAVI's contract with the ED does not require them to mention all options available to the borrower based on what is most appropriate for that particular borrower. Additionally, NAVI is ranked second in terms of the total recipients and dollars outstanding for income-based repayment plans amongst ED servicers (behind AES/PHEAA). The company earns 60% less under forbearance vs. income-based repayment plan and thus contradicts what the article is suggesting.

**Implications for State Lawsuits?** Recall, Illinois, Pennsylvania, Washington, California, and Mississippi are suing NAVI alleging that the company's behavior breaks state laws around consumer protection. Of the five states that filed lawsuits against NAVI, only Illinois and Pennsylvania were aware of the audit. According to our conversation with NAVI, while the states could use this study, the argument doesn't hold a ton of weight which is demonstrated by the Department of Education's support of NAVI.

**Bottom Line:** Clearly this is not a positive headline for NAVI that seems to be more embedded in politics as opposed to actual merit. With the stock down nearly 10% today, the market appears spooked by the report; however, we believe that NAVI's argument as well as the Department of Education demonstrates that the company is in good standing. Unfortunately, headlines spurred by politics will likely weigh on the stock.

**EXHIBIT**

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## Companies Mentioned in This Report

- Navient Corp (NAVI: \$12.00, Outperform)

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The recommendations contained in this report were produced at 20 November 2018 16:00 EDT and disseminated at 20 November 2018 16:00 EDT

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### Navient Corp (NAVI)

**Target Price:** \$22.00

#### Risk Factors:

Risks to achievement of our price target include: 1) regulatory/headline risk, 2) the company's dependence on the capital markets for the funding, and 3) economic weakness.

#### Valuation:

Our \$22 price target is achieved through the following components: 1) FFELP portfolio valuation of about \$16 per share; 2) private student loan portfolio valuation of about \$5 per share; 3) \$4 per share of value related to the company's fee income business (Earnest and non-education businesses); 4) \$2 per share of valuation related to its floor income; 5) backing out about \$2 per share of excess unsecured debt that needs to be repaid down; 6) backing out \$2 per share of capital required for Earnest's asset growth, and 7) backing out \$1 for the DTA write-down.



### Rating and Price Target History for: Navient Corp (NAVI) as of 11-19-2018



**Note:** The boxes on the Rating and Price Target History Chart above indicate the date of Report/Note, the rating and price target. Each box represents a date on which an analyst made a change to a rating or price target.

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			Count	Percent
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Market Perform [HOLD]	320	51.28	112	35.00
Underperform [SELL]	36	5.77	7	19.44
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	21	3.37	4	19.05
Covered -Not Rated [CNR]	2	0.32	0	0.00

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